

Fairfax County Economic Index

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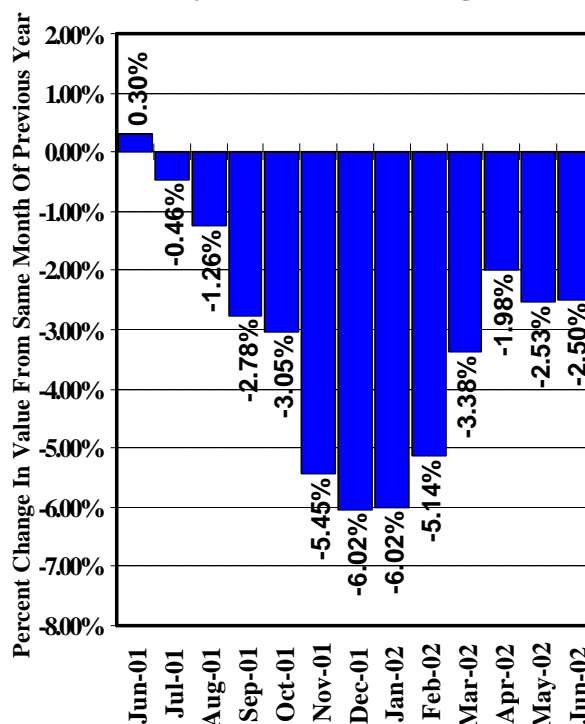
AUGUST 2002

County Economy Gains Strength in June

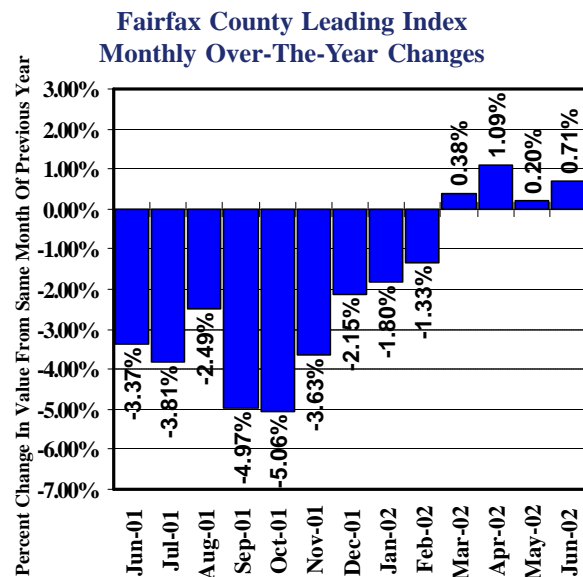
The **Fairfax County Coincident Index**, which presents the current state of the County's economy, increased to 124.9 in June for a gain of 0.67 percent over its May value. June's gain follows declines in the Index in April and May and it remains 2.5 percent lower than its June 2001 level. Furthermore, on a monthly over-the-year basis, June's gain was not sufficient to narrow the performance gap that existed in May indicating that the expansion that began earlier in the year has temporarily leveled off. In June, two of the Index's four components were positive.

- Total employment increased in June after decreasing in the two preceding months; and,
- Consumer confidence (in the present) increased for a second month; while,
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, declined for a fourth consecutive month; and,
- Sales tax collections, adjusted for inflation and seasonal variation, declined for the fourth time in the last five months.

**Fairfax County Coincident Index
Monthly Over-The-Year Changes**



Source: Center for Regional Analysis, George Mason University



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The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, increased to 103.7 in June, for a gain of 0.34 percent, after declining in both May and April. For the year, the Leading Index is up 0.7 percent and has exceeded same-month values in 2001 for four consecutive months—a signal for the re-acceleration of the economy's growth before year's end. In June, two of the Index's five components contributed to its gain.

- Consumer expectations (consumer confidence six months hence) increased following two monthly declines; and,
- Initial claims for unemployment insurance decreased (improved) sharply after increasing in May and April; while,
- New automobile sales decreased after registering a sharp gain in May;
- Residential building permits declined for a third month in a row; and,
- The total value of residential building permits fell sharply after a slight gain in May and has now been down in three of the last four months.

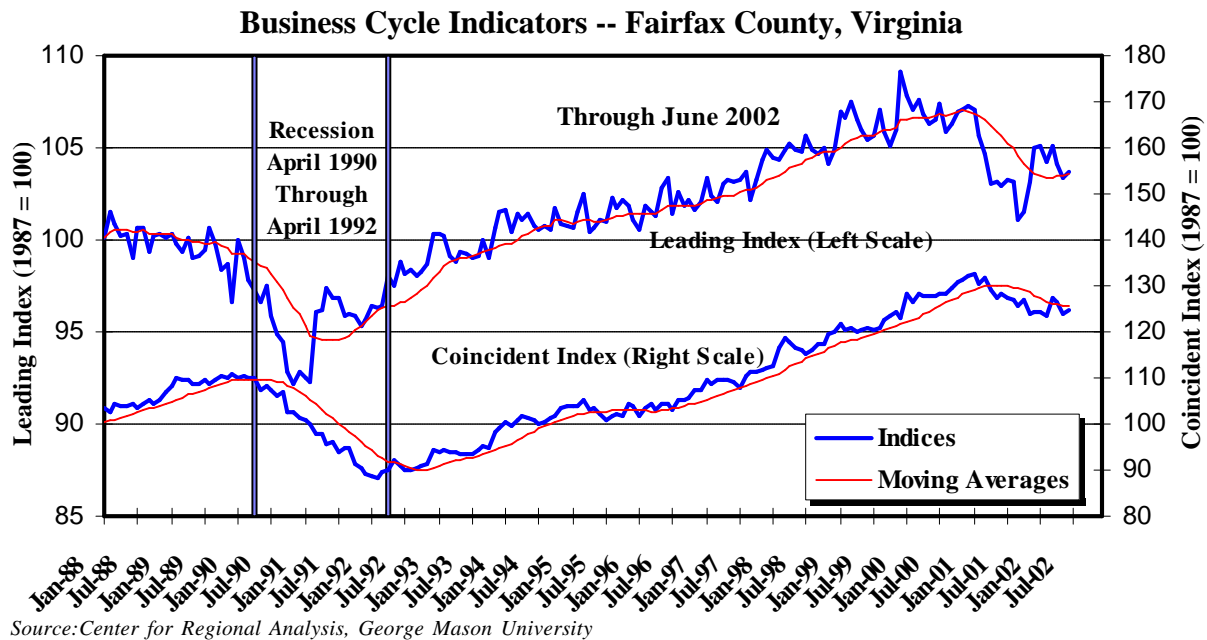
The Fairfax County economy continues to under-perform its 2001 level and its renewed expansion has nearly stalled following a strong gain in March. Still, the current trend (the 12-month moving average line) has stopped declining and appears on the verge of turning positive. With the Leading Index tracking up from its same-month values in 2001 over the last four months, it now provides a strong signal that the County's economy will follow shortly and reaccelerate through the year's second half and on into 2003. However, with early indicators for July showing a decline in consumer confidence, reflecting the weak performance of the financial markets, the economy's monthly performance is likely to be lumpy over the next several months before the growth trend is sustained.

CURRENT CONDITIONS

The recovery of the national economy slowed significantly in the second quarter with GDP growth estimated at only 1.1 percent, down from 5.0 percent in the first quarter. The factors contributing to the slowing of the recovery nationally have had an impact on the re-acceleration of the Fairfax County economy. The two principal drivers of the economy's expansion are job and income growth and consumer spending. Job growth, both nationally and locally has been weak through the early stages of the recovery. However, Fairfax County's labor market appears to be gaining strength. While job growth accelerated in June and is up for the year, other measures of the market's health are particularly important to the recovery.

Layoffs undercut the economy's emerging strength. As measured by changes in initial claims for unemployment insurance, the number of newly laid-off workers fell from May to June by 35 percent. Still, unemployment is up for the year, increasing from 1.8 to 2.7 percent from June 2001 to June 2002. However, the reduction of initial claims in June may be an important sign that the shake-out being experienced among the County's employers may be nearing an end and, with this slow down in newly unemployed workers, job gains should accelerate in the coming months.

Consumer spending did not decline during the recession nationally in contrast to the previous nine recessions. Consumer spending, including the sale of new houses and the resale of existing housing, helped to keep the recession shallow and, in the Washington area, to keep the economy from falling into recession.



NEAR-TERM OUTLOOK

Still, the measures of consumer spending in Fairfax County have been negative in recent months. Sales tax collections have declined, on a monthly basis, for three months in a row and in four of the year's first six months. June's retail sales were 7.3 percent lower than a year ago and new automobile sales, which were down in June, are only slightly ahead (1.7 percent) of their level in June 2001. Residential building permits, while ahead in number, are well behind in value compared to June 2001.

Consumer spending tends to parallel consumer confidence. So, with consumer confidence (in the present) 18.5 percent lower than in June 2001 and experiencing eight consecutive monthly decreases before rising in March 2002, it is not unexpected that consumer spending has been uneven. However, this retail sales slowdown in Fairfax County is not associated with a loss of spending potential, but rather the uncertainty being experienced in the financial markets and this uncertainty has been extended by the loss of trust resulting from the failures and accounting irregularities impacting several local firms. As the financial markets stabilize and corporate trust is reestablished over the next several months, consumer spending will increase quickly, benefitting from the existence of the accumulated spending power present among the County's households.

The Leading Index is pointing to the resumption of accelerating growth by the fourth quarter. With the Leading Index outperforming its 12-month moving average for the last four months, the growth trend has already turned up. Still, this trend is not clearly defined and is likely to encounter some weakness before sustained growth is reestablished. The more vigorous recovery of the national economy will be a factor in the timing of the County's economic expansion as consumer expectations are governed to a greater extent by national economic news than local news. The full resumption of the County's economic growth will depend on accelerating business investment and spending for capital goods and consumer spending for "big ticket" items. This spending has been weak for more than a year and before it regains momentum, the financial markets must first stabilize and business confidence must be reestablished.

The signs are good that the economy is ready to resume its expansion. With the cyclical bounce that occurs in September and October and with the negative economic effects of the September 11 terrorist attack largely overcome, the emerging strength of the local, regional, and national economies will reinforce the expansion. Fairfax County's economic growth should accelerate each month through the fourth quarter setting up a strong performance for 2003.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jun-02 Prelim.	May-02 Final	Jun-01 Final	May-02 to Jun-02	Jun-01 to Jun-02
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	124.93	124.10	128.13	0.67	-2.50
Leading Index (1987 = 100)	103.67	103.32	102.94	0.34	0.71
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	566,809	560,928	551,246	1.05	2.82
<i>Total Covered Employment (Unadjusted)</i>	<i>573,526</i>	<i>561,584</i>	<i>557,778</i>	<i>2.13</i>	<i>2.82</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	301	330	369	-8.60	-18.24
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>529</i>	<i>523</i>	<i>626</i>	<i>1.08</i>	<i>-15.50</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	7,255	7,975	7,829	-9.03	-7.33
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>9,965</i>	<i>10,370</i>	<i>11,097</i>	<i>-3.91</i>	<i>-10.20</i>
South Atlantic Consumer Confidence	134.2	121.6	164.7	10.36	-18.52
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	5,386	5,923	5,295	-9.07	1.71
<i>Automobile Registrations (Unadjusted)</i>	<i>6,066</i>	<i>6,538</i>	<i>5,964</i>	<i>-7.22</i>	<i>1.71</i>
Initial Unemployment Claims (Seasonally Adjusted)	1,816	2,783	1,570	-34.74	15.70
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>1,724</i>	<i>2,550</i>	<i>1,490</i>	<i>-32.39</i>	<i>15.70</i>
South Atlantic Consumer Expectations	114.5	111.0	97.1	3.15	17.92
Residential Building Permits (Number of Units, Seasonally Adjusted)	510	560	397	-9.07	28.51
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>577</i>	<i>591</i>	<i>449</i>	<i>-2.37</i>	<i>28.51</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	18,704	28,168	26,308	-33.60	-28.90
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>37,348</i>	<i>48,892</i>	<i>50,827</i>	<i>-23.61</i>	<i>-26.52</i>
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	587,283	586,473	592,126	0.14	-0.82
<i>Total Labor Force (Unadjusted)</i>	<i>596,351</i>	<i>588,807</i>	<i>601,269</i>	<i>1.28</i>	<i>-0.82</i>
Unemployment Rate (Percent, Seasonally Adjusted)	2.74	3.05	1.79	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>3.09</i>	<i>3.07</i>	<i>2.15</i>	<i>--</i>	<i>--</i>

Notes: All components included in the indices are seasonally adjusted. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

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We are on the web at:
**[www.co.fairfax.va.us/comm/
economic/economic.htm](http://www.co.fairfax.va.us/comm/economic/economic.htm)**

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